

DOCKET SECTION

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

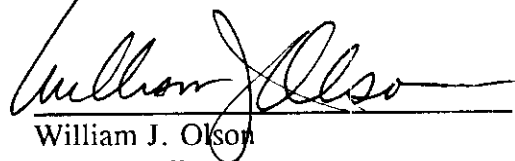
POSTAL RATE AND FEE CHANGES, 1997)

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Docket No. R97-1

**RESPONSE OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, SEATTLE FILMWORKS, INC. AND MERCK-MEDCO
MANAGED CARE, L.L.C., TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE (USPS/NDMS-T3-36-42)
(February 10, 1998)**

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, Seattle FilmWorks, Inc., and Merck-Medco Managed Care, L.L.C., hereby provide the responses of witness John Haldi to the following interrogatories of the United States Postal Service: USPS/NDMS-T3-36-42, filed on January 27, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



William J. Olson

John S. Miles

Alan Woll

John F. Callender, Jr.

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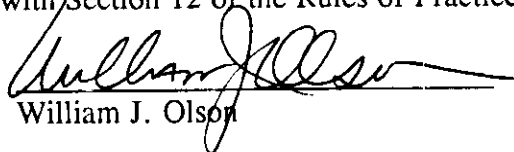
McLean, Virginia 22102-3823

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Counsel for Nashua Photo Inc., District
Photo Inc., Mystic Color Lab, Seattle
FilmWorks, Inc., and Merck-Medco
Managed Care, L.L.C

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

February 10, 1998

Response of Dr. John Haldi to USPS/NDMS-T3-36
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USPS/NDMS-T3-36.

Please provide the sources for your statements on page 34, lines 15-18 and page 35, lines 1-2.

Response:

The data which underlie the comparisons in my statement come directly from Table 3 at page 32 of my testimony. The pertinent data in that table were devised as follows. USPS-T-28, Exhibit K, Table 3A(2) (revised 10/1/97) identifies the total weight of BNP ECR as 266,000 pounds, while the volume was 1,389,000 pieces. $(266/1,389 = 0.192) \times 16 = 3.1$ ounces. The unit delivery cost of BNP ECR is identified as \$0.994.

CS6&7 total:	1,315
CS10 total:	<u>66</u>
Total Delivery	1,381

$$1,381/1,389 = \$0.9942$$

USPS-T-28, Exhibit K, Table 3B(1) (revised 10/1/97) identifies the total weight of BRR Other as 483,659,000 pounds, while the volume was 869,434,000 pieces. $(483,659/869,434 = 0.556) \times 16 = 8.9$ ounces. The unit delivery cost of BNP ECR is identified as \$0.126

CS6&7 total:	84,470
CS10 total:	<u>25,173</u>
Total Delivery	109,643

$$109,643/869,434 = \$0.1261$$

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USPS/NDMS-T3-37.

Please refer to your comments on page 36, lines 1-4 and the results of the study described in Appendix C of LR-PCR-38 in Docket No. MC97-2. Please identify the category which these "odd-shaped parcels" which you claim cause "unusually large costs" would fall in. If you are unable to place them in a category, please describe them in detail and submit all data you have regarding their presence in the Standard Mail (A) mailstream and their relative impact on total parcel costs.

Response:

Please note that my testimony at page 35, which immediately precedes the comments on the top of page 36, discusses the fact that witness Crum's data show a unit mail processing cost of about 15 cents for a commercial ECR parcel, 29 cents for a commercial-rate Other parcel, and about 37 cents for both nonprofit ECR and Other parcels (as shown in Table 3 of my testimony). The portion of my testimony which you cite was giving witness Crum's cost data full credence, and was speculating about what factors might cause the Postal Service to incur such cost differences. It may be entirely possible that witness Crum's cost data are too thin to have any credibility, and should be totally disregarded. In that event, it is of course a waste of time for me (or anyone else) to speculate about underlying causes of such cost differences. Beyond that, if witness Crum believes that his cost data in fact have sufficient credibility to be adopted by the Commission, it really is up to him to support his findings.

My term "odd shaped parcels" refers to parcels with a circular cross section, to irregular shapes known as "outsides," and to other irregular parcels that must be processed manually at every stage. Such parcels are generally considered to have unit

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costs that are somewhat higher than average. Whether they are more concentrated in some subclasses than others I do not know.

USPS/NDMS-T3-38.

Please refer to page 37, lines 13-15 of your testimony as well as Tr. 15/8063 and Tr. 19E/9850-9851. In light of the record testimony cited, please provide an explanation for your statement that "length and girth were the only measurements available for any parcel in the study."

Response:

Tr. 15/8063 does not exist. Tr. 17/8063 discusses the number of parcels (82 percent) for which "direct measurement" was recorded. Tr. 19E/9850 states that length, width and height were recorded for 82 percent of the parcels described in Exhibit USPS-28K, Table 3.

USPS/NDMS-T3-39.

Please refer to page 38, lines 6-8 of your testimony.

- (a) Please describe which line(s) of the transcript page you cite lead to your conclusions and explain.
- (b) Please provide all data or analysis you have completed to show beyond a merely intuitive level that "the methodology of the earlier study was less subject to human error".

Response:

- (a) Witness Crum's testimony, Tr. 17/8062-63, states that "I would guess, as far as human fallibility, which is only one of the many factors that we would assess in trying to see which is coming up with the best estimate — and I can't say this for certain, but my personal intuition might be that the human fallibility factor might be *higher for the study that we did, but again, there are many factors other than human fallibility....*" Taking *human fallibility* as a synonym for *human error*, I take this to be at best a weak guess, perhaps not an awareness, that the earlier study might be less prone to human error.
- (b) No such empirical analysis has been undertaken.

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USPS/NDMS-T3-40.

Please refer to page 39, lines 2-3 of your testimony. Please provide a citation as to exactly where witness Crum asserts a revenue shortfall.

Response:

See NDMS-T-3, p. 10, ll. 3-8. A comparison of the revenue data from witness Crum's testimony, USPS-T-28 (revised 10/1/97), Exhibit K, Table 1 and 2, with the total attributable cost data in Tables 3A(1), 3A(2), 3B(1) and 3B(2) posit a revenue shortfall.

USPS/NDMS-T3-41.

Please refer to page 41 of your testimony. Do you believe that the Commission should de-average dropship discounts by shape in Standard Mail (A)? Do you believe it would be consistent to fully de-average dropship discounts while passing through only 28.5 percent of the stated cost difference between parcels and flats? Please fully explain any affirmative response.

Response:

Please note that my primary recommendation is not to impose any parcel surcharge at this time, in which case your question becomes moot. To your question in context, if the Commission should nevertheless decide to recommend a surcharge based on costs that incorporate shape-based transportation cost differences, then my answer is yes. I believe it would be consistent to de-average fully dropship discounts by shape when passing through 100 percent (or more) of the stated revenue-cost difference for parcels. I further believe that adoption of the Postal Service's proposal which attempts to identify fully shape-based costs, while ignoring shape-based cost avoidance, would be grossly inconsistent.

USPS/NDMS-T3-42.

Please refer to page 14 of your testimony where you state "one can predict with a high degree of confidence that virtually all parcel mailers whose product gives them a repackaging option will in fact seek to repackage their products into flat-shaped mailpieces if confronted with a significant surcharge for parcels... Thus, one immediate and highly predictable result of the Standard A parcel surcharge would be a massive repackaging of mailpieces now classified as parcels."

- (a) Please provide any study or analysis you have produced to support such claims.
- (b) Please define your use of the terms "high degree of confidence" and "highly predictable" and state the basis (if any) for these conjectures.

Response:

- (a) Please see my answers to NDMS/USPS-T3-10 and 27.
- (b) My high degree of confidence in standard microeconomics provides the basis for my high degree of confidence that mailers will react as suggested. At the level of theoretical analysis of prospective business costs and cost savings involved in this discussion, I feel that it is indeed highly predictable that mailers will search for ways to offset the impact of the surcharge. Please note that my prediction pertains only to mailers seeking to do so, not necessarily concluding that it would be cost-effective for them to repackage. This much can be derived by standard microanalysis, and my testimony offers it as a conclusion. Conversations with the sponsors of my testimony, who annually mail millions of parcels and therefore would be affected by the surcharge, allow me to go further and assert that the behavior I refer to in my testimony is already underway, and is going forward in a most determined fashion.

DECLARATION

I, John Haldi, declare under penalty of perjury that the foregoing answer is true and correct to the best of my knowledge, information and belief.


John Haldi

Dated: February 10, 1998